

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 CIAE-00 COME-00 DODE-00  
DOTE-00 FMC-01 INR-10 NSAE-00 CG-00 DLOS-09  
OES-07 XMB-02 TRSE-00 AID-05 OMB-01 L-03 INT-05  
/062 W

-----031428 232003Z /73

R 231653Z JUN 78  
FM AMEMBASSY BRASILIA  
TO SECSTATE WASHDC 8009  
INFO AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 4944

E.O. 11652: GDS  
TAGS: EWWR, BR  
SUBJECT: SEALAND IN BRAZIL

REF: (A) STATE 155588 (B) STATE 140906 (C) RIO 1658

1. SUMMARY. ECONOFFS BRIEFED FONMIN TRANSPORTATION CHIEF ON WITHDRAWAL OF EX-IM FINANCING OF CARRIAGE ON BRAZILIAN-FLAG VESSELS. GOB OFFICIAL RESPONDED WITH EQUANIMITY AND INDICATED A WILLINGNESS TO DISCUSS ISSUE FURTHER, BUT REITERATED THAT GOB POSITION WAS FIRM AND BASED ON HIGH LEVEL APPROVAL. END SUMMARY.

2. ON JUNE 21 ECONOFFS CALLED ON FONMIN TRANSPORTATION DIVISION CHIEF PIRES TO INFORM HIM THAT THE EX-IM BANK HAD REVERTED TO ITS POLICY OF NOT FINANCING THE COST OF FREIGHT OF EX-IM BANK FINANCED EQUIPMENT MOVING IN BRAZILIAN FLAG VESSELS FOR THOSE BRAZILIAN CREDITS AUTHORIZED AFTER JUNE 20, 1978 (REFS. A B). ECONOFFS POINTED OUT THAT ASST. SECRETARY BLACKWELL HAD NOTED THE POSSIBILITY OF TAKING THIS COURSE OF ACTION DURING HIS VISIT TO BRAZIL IN APRIL. ECONOFFS EMPHASIZED THAT THIS ACTION  
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WAS LIMITED AND MORE RESTRAINED THAN OTHER ACTIONS USG MIGHT HAVE TAKEN. THE STRONGER ACTIONS AVAILABLE WERE NOT TAKEN IN AN ATTEMPT TO COME TO SOME SOLUTION IN THE SEA-LAND MATTER AND TO LEAVE THE MATTER OPEN FOR FURTHER DIPLOMATIC AND COMMERCIAL EFFORTS TO RESOLVE DIFFICULTIES.

3. AFTER LISTENING TO THIS PRESENTATION, PIRES COMMENTED WITH EQUANIMITY THAT THIS ACTION DID NOT COME AS A SURPRISE AND WOULD NOT HAVE AN IMPORTANT IMPACT UPON BRAZIL. HE NOTED THAT LLOYD BRASILEIRO HAD TO CHARTER VESSELS, AT SOME LOSS TO BRAZIL OF FOREIGN CURRENCY AND EXPENSE TO THE FIRM. LLOYD WOULD PROBABLY CANCEL SOME CHARTER CONTRACTS. HE AGREED THAT THIS MOVE WAS MORE LIMITED THAN OTHER POSSIBLE ONES, AND SAID THAT WITHDRAWAL OF P.R. 17 WAIVERS ON SHARING OF EXIM-FINANCED CARGO WOULD HAVE BEEN HARDER FOR BRAZIL TO TAKE.

4. ECONOFFS THEN MADE FOLLOWING POINTS ON TRANS-SHIPMENT ISSUE IN ORDER TO CLEAR UP ANY MISCONCEPTIONS ON BRAZILIAN SIDE:

(A) VIRTUALLY ALL CARGO TRAVELLING BETWEEN PUERTO RICO AND BRAZIL WOULD ORIGINATE IN ATLANTIC, GULF, OR WEST COAST POOL PORTS AND WOULD THEREFORE BE ALLOCATED TO THOSE POOLS. (PIRES AGREED.)

(B) PUERTO RICO TRANSSHIPMENT WOULD NOT ENDANGER THE POSITION OF BRAZILIAN SHIPPING LINES IN POOL ARRANGEMENTS. (PIRES REPLIED THAT SOME BRAZILIAN LINES HAD EXPRESSED WHAT HE CALLED THE "SUSPICION" OR "FEAR" THAT SEA-LAND WITH "ITS VAST INTERNATIONAL CONNECTIONS" MIGHT DIVERT CARGO FROM

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OTHER AREAS SUCH AS EUROPE OR MIDDLE EAST TO PUERTO RICO FOR TRANSSHIPMENT TO BRAZIL. PIRES SAID SEA-LAND WOULD ARGUE THAT BILLS OF LADING COULD ESTABLISH ORIGIN OF GOODS, BUT BRAZILIANS BELIEVE THAT THESE BILLS COULD BE FALSIFIED AND THAT IT WOULD BE HARD TO CONTROL TRAFFIC TO AND FROM THE TRANSSHIPMENT POINT. ECONOFFS RESPONDED BY REMINDING PIRES OF ASST. SECRETARY BLACKWELL'S OFFER TO WORK WITH SUNAMAM TO PREVENT SUCH LEAKAGE (REF. C). PIRES SAID THAT BRAZILIANS HAD NOTICED THAT SEA-LAND HAD RECENTLY BEEN FINED \$14 MILLION IN US COURTS FOR ILLEGAL REBATES AND EXPRESSED SOME DOUBT THAT SEA-LAND WOULD PLAY FUOLY BY THE RULES.)

(C) SUNAMAM RESOLUTION 5246 IS AN INTRUSION INTO A US DOMESTIC MATTER THAT THE USG CANNOT ACCEPT. (PIRES TOOK NOTE, BUT DID NOT ARGUE THE POINT.)

5. IN FURTHER REMARKS ABOUT THE TRANSSHIPMENT ISSUE, PIRES SAID HE THOUGHT THE US HAS TWO ALTERNATIVES, EITHER OF WHICH WOULD MEET WITH

BRAZILIAN SUPPORT:

(A) BRING PUERTO RICO INTO THE EAST COAST  
CONFERENCE.

(B) CREATE A SEPARATE CONFERENCE FOR PUERTO  
RICO AND THE VIRGIN ISLANDS.

6. IN REPLY, ECONOFFS REFERRED PIRES TO THE  
TECHNICAL AND OPERATIONAL DIFFICULTIES OF THIS  
PROPOSAL AND OF THE NEED FOR UNANIMITY OF THE  
PARTICIPANTS IN THE CONFERENCE WHICH MIGHT NOT BE  
FORTHCOMING (REF. C). PIRES CONCEDED THE DIFFICULTY  
OF IMPLEMENTING EITHER OF THESE PROPOSALS, ADMITTING  
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MOORE MCCORMICK MIGHT WELL OPPOSE EITHER COURSE, BUT  
SAID IT WOULD BE USEFUL TO CONSIDER THESE PROPOSALS.  
("IN ANY CASE, IT WOULD EXPOSE MOORE MCCORMICK'S POSITION",  
HE ADDED.)

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C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 4944

7. ASKED WHICH WAS THE MORE DIFFICULT PROBLEM TO SOLVE  
RELATED TO SEA-LAND'S ENTRY, CONTAINER SIZE OR

TRANSSHIPMENT, PIRES SAID TRANSSHIPMENT WAS BECAUSE SEA-LAND HAD IT IN ITS POWER TO FIND A TECHNICAL SOLUTION PERMITTING IT TO ENTER BRAZIL WITH ISO-STANDARD CONTAINERS--LEASE VESSELS FOR 40 FOOTERS, WORK WITH BRAZILIAN PORT AUTHORITIES TO PROVIDE APPROPRIATE CRANES FOR LOADING AND UNLOADING CARGO, ETC. -- BUT SEALAND WOULD HAVE DIFFICULTY IN OBTAINING UNANIMOUS CONSENT OF OTHER US CARRIERS FOR A CONFERENCE CHARGE WHICH WOULD ENABLE SEA-ALDN TO TRANSSHIP FROM PUERTO RICO.

8. PIRES AGREED TO INFORM OTHER GOB AUTHORITIES OF EMBASSY DEMARCHE, INCLUDING SPECIFICALLY MINISTER PROENCA ROSA OF FONMIN, GENERAL BRAGA OF TRANSPORTATION MINISTRY, COMANDANTE ABREU OF CIDETI, AND COMANDANTE ABUD OF SUNAMAM. HE ACKNOWLEDGED USG OFFER TO CONTINUE DISCUSSIONS ON SEA-LAND ISSUES, AND SAID BOTH THAT BRAZIL REMAINED READY TO DISCUSS THE MATTER AND THAT IT WAS IMPORTANT TO TRY TO RESOLVE SUCH ISSUES THROUGH CHANNELS  
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SUCH AS OURS. HE CAUTIONED, HOWEVER, THAT THE BRAZILIAN POSITION IS FIRM AND REITERATED THAT FONMIN SILVEIRA AND PRESIDENT GEISEL HAD GIVEN PRIOR APPROVAL TO POSITION BRAZIL HAD TAKEN ON SEA-LAND.  
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## Message Attributes

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**Disposition Approved on Date:**  
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